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Retail Food Sector Report

Report Categories:

Retail Food Sector

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Report Highlights:

The retail food sector in Honduras is growing. The implementation of the CAFTA-DR agreement and favorable market conditions have resulted in more franchises and supermarkets. The preference for U.S. products has risen steadily over the past few years and further increases are expected. The Central American countries, Mexico and Chile are the main competitors to the United States for the Honduran imported food market.

General Information:

I. MARKET OVERVIEW

A. Economic Situation

Honduras, with a per capita gross national income of US\$1,635, is one of the poorest countries in the Western Hemisphere. The economy grew 4.0 percent in 2008. This compares to 6.3 percent growth in 2007. Growth slowed in 2008, primarily because of external price shocks and the effects of the global economic slowdown. The economy relies heavily on a narrow range of exports, notably bananas and coffee, making it vulnerable to natural disasters and shifts in commodity prices. The Honduran economy has diversified in recent decades and now has a strong export-processing (*maquila*) industry, primarily focused on assembling textile and apparel goods for re-export to the United States, as well as automobile wiring harnesses and similar products.

U.S. exporters enjoy an enviable position in the Honduran market, and have seen this position improve after the 2006 implementation of the Central American Free Trade Agreement (CAFTA-DR), which was signed by the U.S., Honduras, El Salvador, Nicaragua, Costa Rica, Guatemala, and the Dominican Republic in August 2004. Honduras was the second country to ratify CAFTA-DR, which entered into force for Honduras on April 1, 2006, one month following ratification by El Salvador and the United States. CAFTA-DR eliminates most tariffs and other barriers for U.S. goods destined for the Central American market. It also provides protection for U.S. investments and intellectual property, and creates more transparent rules and procedures for conducting business. United States companies manufacturing in Honduras benefit from CAFTA-DR as it aims to eliminate intra-Central American tariffs, and facilitate increased regional trade.

Honduras has a 13,603 kilometers (km) official road network connecting the ports and airports with the secondary cities and rural areas of the country. It has good surface connections with the rest of Central America, and the domestic road network generally satisfies local and foreign companies' distribution and transportation needs. Honduras is moving forward with a US\$470 million "dry canal" project, a four lane superhighway that will connect Puerto Cortés on the Caribbean with the Port of La Unión in El Salvador on the Pacific. This major infrastructure project, which is expected to be completed by year 2013, will improve the country's logistics and distribution network.

The total market for food processing and packaging equipment in Honduras has increased steadily over the past few years and further increases are expected in the years to come. The United States continues to be Honduras' largest supplier of food processing and packaging equipment, enjoying a high level of acceptance and reputation for high quality.

Distribution channels in Honduras are similar to those in the United States. Honduras has fewer levels of distribution and a more limited number of specialty, chain, and department stores. However, new investments in construction of large shopping malls and other smaller mixed-use commercial centers in strategic urban areas, as well as big retail stores such as PriceSmart and HyperPaiz (Wal-Mart), are good indicators of increasing opportunities in the retail distribution sector.

Until early 1990, Honduras maintained a fixed official exchange rate of two Lempiras to the U.S. dollar. In March 1990, with the passage of a sweeping economic reform package, the Central Bank of Honduras devalued the lempira vis-à-vis the dollar, and later permitted it to float within a managed band devaluating at approximately 4.0 percent per year. Since 2005, the official exchange rate has been held fixed at 18.9 Lempiras to the dollar.

The retail sector in Honduras is dominated by three supermarket chains: La Colonia, PriceSmart, and Walmart (Paiz/La Despensa). The target markets for these supermarkets are high and middle-income families and low-income families.

Under CAFTA-DR, the tariff on a wide range of consumer-oriented products was eliminated. Market demand for U.S.

products in this sector looks promising. Honduras ranks 21st in “other consumer-oriented products” exported by the United States

Most of the supermarket stores are located in Tegucigalpa and San Pedro Sula. These two cities are the major distribution centers for imported products. The coastal city of La Ceiba is one of the fastest growing regions in Honduras, attracting a significant number of commercial outlets and retail chains. The most common alternative distribution channels include selling directly to customers, selling through intermediaries based in the United States, and selling through local distributors/representatives. Given its relatively small size, U.S. firms will find that a single distributor or representative is sufficient to cover all of Honduras. The Honduran market has traditionally been highly receptive to U.S. products and services.

B. Advantages and Challenges for U.S. Exporters in Honduras

ADVANTAGES	CHALLENGES
Close proximity to the United States. Containerized cargo from gateway cities can be transported to Honduras in two to three days. With the lowest logistical costs in the region, Honduras also serves as a distribution platform for the rest of Central America.	Direct competition from other Central American countries, as well as Mexico and Chile.
CAFTA-DR eliminates most tariffs and other barriers to United States goods destined for the Central American market, provide protection for United States investments and intellectual property, and creates more transparent rules and procedures for doing business.	Investment, maintaining macroeconomic stability, and increasing the private sector’s competitiveness in order to reap the benefits of Free Trade Agreements such as CAFTA-DR.
Consumers strongly prefer U.S. products because of their high-quality. Importers prefer trading with U.S. exporters because of reliability.	The current economic situation in the country limits purchasing power and customers are price sensitive.
Among the leading sectors for U.S. exports and investment are fast food outlets, casual dining restaurants, U.S. hotel chains, tourism (to include investment in the prime tourist areas of the Bay Islands and the North Coast of Honduras), food processing and packaging equipment, processed foods, and general consumer goods.	Relative high duties on some products, inconsistent customs valuation practices, and import procedures make it more difficult to enter the market.
Increases in infrastructure and facilities have permitted the year-round availability of U.S. fruits such as apples, pears, and grapes. Direct imports by warehouse outlets have diversified foods imports.	Unclear and occasionally restrictive sanitary and phytosanitary import requirements.

II. ROAD MAP FOR MARKET ENTRY

A. Super Stores and Supermarkets

Entry Strategy

For marketing purposes, Honduras can be divided into two regions: the North Coast, including San Pedro Sula, the country's commercial and industrial capital; and the Central region, where Tegucigalpa, the political capital and largest city, is located. Tegucigalpa and San Pedro Sula are the major distribution centers for imported goods. A single distributor or representative is sufficient to cover all of Honduras, and they tend to carry broad lines of products on a non-exclusive basis.

Located in the heart of Central America, Honduras is only a two to three hour flight from several U.S. gateway cities and 48 to 72 hours navigation time to ports in the southeastern United States. With the lowest logistical costs in the region, Honduras is also a distribution platform for the rest of Central America. Honduras has ports on both the Atlantic and Pacific Oceans that are served by a number of shipping companies linking the country with the United States, Europe, Asia, and the rest of the Western Hemisphere. The northern port of Puerto Cortés, located 34 miles (55 km) from the industrial city of San Pedro Sula, is Honduras' principal seaport and the largest deep-water port in the region. It manages over 80 percent of the maritime traffic handled by Honduras, plus cargo from El Salvador and Nicaragua. Puerto Cortés operates 24 hours a day and is the first port in Latin America to qualify under both the mega ports and Container Security Initiatives (CSI). These initiatives allow approximately 90 percent of all transatlantic and transpacific cargo imported into the United States to be prescreened prior to importation.

Price is among the most important selling factors in Honduras. In many cases, Honduran business people buy directly from the source if they feel that the cost-savings is sufficiently advantageous. The local banking system is traditionally conservative and generally extends only limited amounts of credit, though looser monetary policies and increased competition from regional and international banks including HSBC and Citigroup led to an expansion of consumer credit in 2007. U.S. exporters that offer attractive financing terms on sales to Honduran traders have the best chance of gaining market share. Most non-agricultural duties were eliminated with the implementation of CAFTA-DR. The duty assessed by the Honduran government at the time of customs clearance ranges from 0 to 15 percent for select items.

Market Structure

- There are four food distributors with capacity to supply both Tegucigalpa and the business capital San Pedro Sula markets: DIAPA, CODIS, Distribuidora Solis, and DIMERC.
- The target population is concentrated in the capital city of Tegucigalpa and in the San Pedro Sula. Together, the population of these cities consumes roughly 80 percent of food imports. As U.S. products enjoy a high quality image, there is a growing demand in cities such as El Progreso, La Ceiba, Choluteca, Comayagua, Danli, and in the tourist resort areas of the Bay Islands.
- Honduras' retail food sector is by far the largest market for imported food. Urban consumers shop at open markets, American-style supermarkets, mini-markets, specialty stores, convenience stores, and local "mom & pop" stores (known locally as 'pulperias'). Retail sales of imported consumer-oriented products are conducted mostly by supermarkets, mini-markets, and convenience stores. However, pulperias in Tegucigalpa and San Pedro Sula also sell imported products, mostly snacks.

Company Profiles

Name of Retailer	Ownership	Number. of Outlets	Locations	Purchasing Agent Type
La Colonia Supermarket	Local	16	Tegucigalpa, Choluteca and Comayagua	Direct Distributor
Junior Supermarket	Local	1	San Pedro Sula	Direct Distributor
PriceSmart Wholesale Club	U.S.	2	Tegucigalpa, San Pedro Sula	Direct Distributor
Hiperpaiz/Hypermart / Despensas	Local/Wal-Mart Central America Group	53	Tegucigalpa, San Pedro Sula and other cities	Direct Distributor
Comisariato Los Andes, Supermarket	Local	1	San Pedro Sula	Direct Distributor
Mas x Menos Supermarket	Local	1	Tegucigalpa	Direct Distributor
YIP Supermarket	Local	1	Tegucigalpa	Direct Distributor
Stock Wholesale Store	Local	1	Tegucigalpa	Direct Distributor
Colonial Supermarket	Local	1	San Pedro Sula	Direct Distributor
La Economica Supermarket	Local	1	San Pedro Sula	Direct Distributor
ELDON's Supermarket	Local	1	Roatan, Bay Island	Direct Distributor

Tends and Highlights

- The supermarket retailing industry is expanding. Supermarket chains have opened stores in various urban locations.
- The entry of wholesale clubs has forced supermarkets to conduct more aggressive advertising and price discounting. Promotions for U.S. products are periodically held by supermarkets. The weekly supermarket sales advertised in nationwide newspapers always include U.S. products.
- Supermarkets and wholesale clubs carry a larger and more varied inventory of imported food products on a consistent basis, thus accounting for the largest volume of sales of consumer-ready (canned, preserved, processed, frozen and chilled) food products.
- There is a strong preference for U.S. food products and increasing demand for supermarkets and mini-markets.
- Sales of fresh fruits and vegetables continue to rise, as increased investments in the cold chain allow for longer shelf life of perishable items. More agile import logistics allow consumers to purchase fresher fruits and vegetables at the retail stand. Apples, pears, and grapes are now available all-year round, since supermarkets can

import them from the United States Chile or Mexico.

- Imported sausages, hams and other deli meat products have taken a strong foothold, as prices have become extremely competitive compared to local deli products. Demand for pork cuts has also increased, especially for smoked pork and ribs.
- Supermarkets now offer a variety of services, from banking and pharmacies to food courts and dry cleaning. La Colonia Supermarket is the only supermarket in Honduras that offers credit card services to their customers. When using the store issued card, the customer receives a 10 percent discount.

B. Convenience Stores, Gas Marts

Name of Retailer	Ownership (Local/Foreign)	Number of Outlets	Location	Purchasing Agent
TEXACO	Local & US	93	Tegucigalpa, San Pedro Sula and other cities	Distributors
Dippsa	Local & Swiss	142	Tegucigalpa, San Pedro Sula and other cities	Distributors
ESSO	US	54	Tegucigalpa, San Pedro Sula and other cities	Distributors
SHELL	Local, British & Holland	63	Tegucigalpa, San Pedro Sula and other cities	Distributors
UNO	Local	47	Tegucigalpa, San Pedro Sula and other cities	Distributors

Trends and Highlights

- Convenience stores are the only business that offers 24-hour service. Most of these stores are located in the main boulevards of the city.
- Convenience stores specialize in fast foods, hotdogs, sandwiches, chicken and pizza, but also carry high-quality imported goods such as snacks, cookies, assorted candy, chocolates, ice cream, sodas, beer, deli meats and groceries.
- Pricing strategies vary among convenience store chains, typically ranging from 10 percent above supermarket level prices, to those competing with supermarket pricing on basic food items and beverages.
- Larger convenience store chains now lease space to fast-food restaurants, such as Wendy's and Express Americano Coffee Shops to set up drive-thru and carry-out services.
- Stores carry a greater variety of basic groceries, such as fluid milk, cheese, eggs and bread, and ready-made dinner items, in an effort to appeal to working parents with limited time to cook meals at night, including beer and liquor.

C. Traditional Markets

Entry Strategy

There are two types of traditional markets in Honduras. One is the open-air farmer's market, where growers and intermediaries sell their products directly to consumers. These markets primarily concentrate on local produce and farm fresh goods such as fruits and vegetables, staple grains, red meat, pork, poultry, eggs and fish.

Each town has at least one open-air market. Tegucigalpa has sixteen, and each one has a large variety of products, San Pedro Sula has seventeen open-air markets. Most open-air markets operate daily, while some are open only on Friday and Saturday.

Major distributors of processed products such as breakfast cereals, canned tuna, ketchup, mayonnaise, cookies, and UHT milk also sell their products in open-air markets. Prices are much lower than in supermarkets. U.S. products with a low price are found in these open markets. It has also become popular to find apples and grapes for sale at these markets.

The second store type is the pulperias (the mom and pop stores). The number of these stores is huge in Tegucigalpa and San Pedro Sula. Wholesalers distribute products to these stores at least twice a week. They have developed a route system to get products to all the stores. Even small villages of only 100-200 people are likely to have a pulperia.

Prices for the customer in the pulperias are usually higher than the supermarket prices. However, most of the population shops in pulperias since poor consumers can often only afford to buy small individually packaged quantities.

III. COMPETITION

United States total agricultural exports to Honduras increased from over US\$393 million in 2007 to US\$508 million in 2008.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Snack foods Imports from the world, over US\$53 million Imports from the United States, over US\$7 million	Guatemala, Mexico and El Salvador United States, 13 percent market share	The Free Trade Agreement between Mexico and the northern triad countries of Central America (Guatemala, El Salvador and Honduras) has allowed Mexican imports to increase their presence in the market. Price is competitive.	Honduras produces plantain and potato based snacks

		Package is small.	
Dairy Imports from the world, almost US\$50 million Imports from the United States, almost US\$16 million	Nicaragua, Costa Rica and Guatemala United States, 31.9 percent market share	These countries supply milk, cream, ice cream, yogurt and butter products. They have developed a long standing reputation in the market.	Local suppliers are increasing domestic production. The installation of a local dehydrated milk plant and increase in tariffs for imported dairy products are creating conditions to improve local production.
Fresh Fruit Imports from the world, over US\$29 million Imports from the United States, almost US\$14 million	Chile and Mexico United States, 46 percent market share	Chilean apples and grapes are gaining ground in the Honduran market.	Honduras does not produce apples and grapes.
Fresh and frozen vegetables Imports from the world, over US\$ 8 million Imports from the United States, over US\$ 1 million	The Netherlands, Argentina and Guatemala United States, 45 percent market share	The Netherlands is gaining ground providing frozen potatoes and onions. Price is competitive. Guatemala provides fresh vegetables to Honduras such as carrots, broccoli, lettuce, tomatoes, cauliflower and cucumbers.	Honduras does not produce frozen vegetables
Wine and beer Imports from the world, over US\$13 million Imports from	Chile, Argentina, Mexico and El Salvador	Chilean and Argentine wines enjoy an excellent reputation in the Honduran market. Mexico and El Salvador are the major suppliers of imported beer.	Honduras does not produce wine in commercial amounts.

the United States, over US\$5 million	United States, 40 percent market share		
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Guatemala, Costa Rica, El Salvador and Mexico are the United States' main competitors in the Honduran imported food market. European and South American competitors face more difficulty in competing with the United States due to the United States' proximity to Honduras, the positive perception of American products in the local market, and long-standing commercial ties with Honduras.

Major suppliers of consumer-oriented foods to Honduras in 2008 were in rank order: Guatemala, United States, Costa Rica, El Salvador, Mexico, Nicaragua, Chile and The Netherlands.

IV. Best Product Prospects

Product Category	2008 Imports (US\$ in thousands)	5-Yr. Avg. Annual Import Growth (percent)	Import Tariff Rate per CAFTA-DR	Key Constraints Over Market Development	Market Attractiveness for USA
Snack Foods	15,205	152	All U.S. snack foods are tariff free.	Competition from El Salvador and Guatemala	<ul style="list-style-type: none"> • Close proximity to the U.S. products • Consumers have strong preferences for U.S. products. 0 percent duty for US premium cuts • Rapidly developing retail & HRI sector. • Strong presence and growth of U.S. fast food outlets. • Tourism is growing at a fast pace. • Developing food processing industry needing quality ingredients
Red Meat, Fresh/Chilled/Frozen	25,783	30	Immediate tariff elimination of prime and choice cuts. All other	Competition from: Nicaragua, Costa Rica, and Canada.	

			tariffs on beef and beef products will be eliminated within 15 years.		
Poultry Meat	6,703	18	All Central American tariffs on poultry and poultry products will be eliminated within 18 years. Chicken leg quarters are at zero percent within quota.	Competition from: Canada and Costa Rica	
Eggs & Products	1,139	68	Eggs & egg products are tariff free	Competition from: El Salvador, Costa Rica and Panama	
Fresh Fruit	13,327	62	Almost all U.S. fresh fruits are tariff free, except for oranges (10 yrs)	Competition from: Chile, Mexico, Guatemala, Costa & Rica	
Processed Fruit & Vegetables	13,873	70	All U.S. vegetables are tariff free, except the followings: frozen vegetables (10 yrs); mixed vegetables (5 yrs).	Competition from: Guatemala, Mexico, Costa Rica, Nicaragua, El Salvador, Spain, Italy, Chile, China, Dominican Republic, Argentina, The Netherlands, Canada, Panama and Brazil Customers are price sensitive	
Tree Nuts	573	249	All tree nuts are tariff free.	Competition from: Guatemala, México Costa Rica Customers are price sensitive	

V. Post Contact and Further Information

If you have any questions or comments regarding this report, or need assistance exporting to Honduras, please contact the Office of Agricultural Affairs at the address listed below:

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